

# The Impact of Health Reform on the Maine Markets

Analysis Results of PL90 and the Affordable Care Act

January 17, 2012  
Gorman Actuarial, LLC

# PL90 Analysis Results

# PL 90 Analysis Focus


- ▶ Individual Market Reinsurance Program
- ▶ Individual Market Rating Rule Changes
  - Closed Block
  - Open Block
- ▶ Small Group Market Rating Rule Changes

# Individual Market Reinsurance Program

- ▶ Prospective Program – Insurer cedes members for reinsurance using a variety of tools
- ▶ Each time insurer cedes a member, insurer pays a premium to the reinsurance program
- ▶ For each ceded member the reinsurance program will pay for 90% of annual paid claims between \$7,500 and \$32,500, and 100% of claims above \$32,500

# Individual Market Reinsurance Program

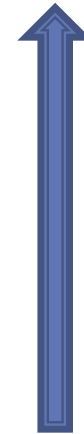
Health Assessment Tool	Insurer Risk	Reinsurance Program Costs
Health Statement	Greatest	\$
Predefined Health Conditions	Medium	\$\$
Claims History	Least	\$\$\$



*The health assessment tool can significantly impact insurer risks and reinsurance program costs*

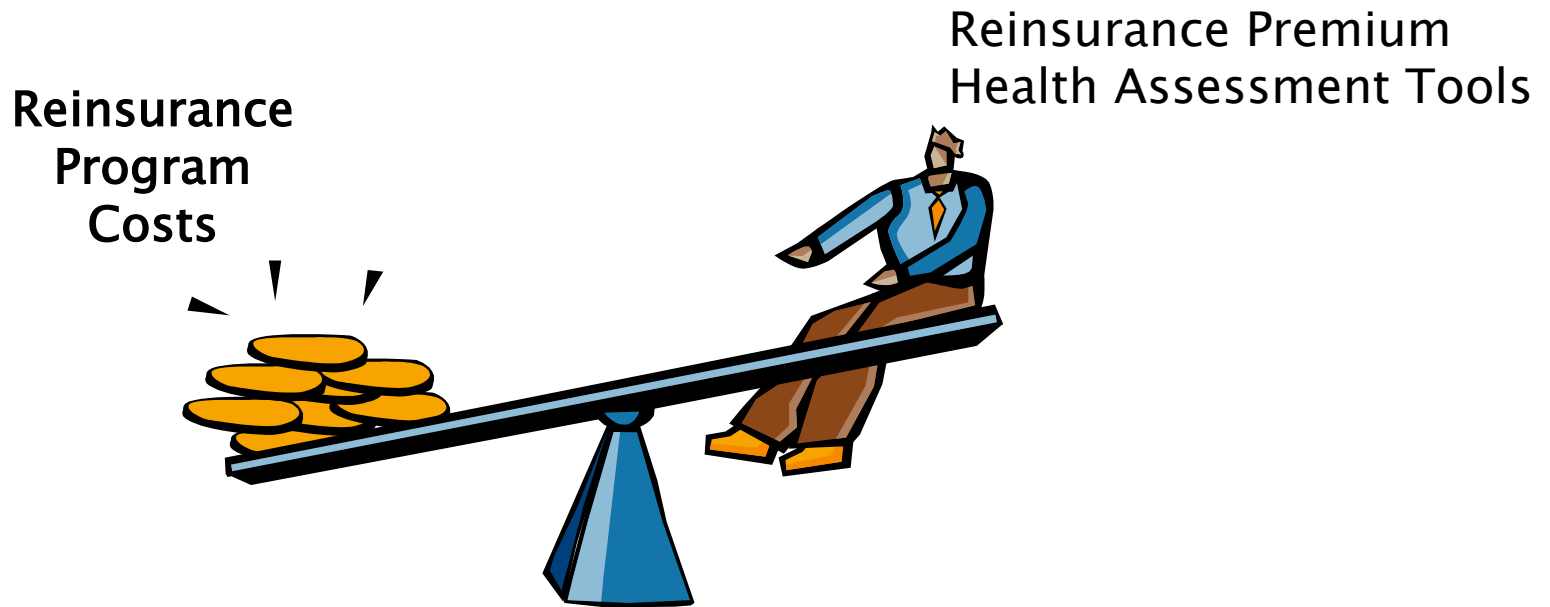
# Individual Market Reinsurance Program

Reinsurance Premium	Insurer Risk	Reinsurance Program Costs
\$	Least	\$\$\$
\$\$	Medium	\$\$
\$\$\$	Greatest	\$



*The reinsurance premium can significantly impact insurer risks and reinsurance program costs*

# Individual Market Reinsurance Program



**Reinsurance Program Success is a Balancing Act!**

# Individual Market Reinsurance Program Program Design Considerations

1. Health Statement Design
2. List of Health Conditions
3. Use of historical claims experience
4. Reinsurance premiums
5. Compliant with federal reinsurance program?
6. Timing: program begins July 1, 2012, yet law states claims are reinsured on a calendar year basis. What does this mean?

**Many Unknowns!**



# Reinsurance Funding

1. **Market Assessment: up to \$4 PMPM**
  - Includes: Individual, Small Group, Large Group, and Self Insured Markets
  - Excludes: State and Federal employees
2. **Additional assessments to cover net losses up to \$2 PMPM**
3. **Organizational Assessment: One time fee of up to \$500 per Carrier**
4. **Reinsurance Premium or Ceded Member Premium**

# Reinsurance Funding Assessments

- ▶ Estimated 532,000 members will be assessed
- ▶ \$4 PMPM Assessment
  - Estimated \$22.4M will be collected annually
- ▶ \$2 PMPM Optional Assessment
  - Could collect up to an additional \$11.2M annually

# Reinsurance Funding: Reinsurance Premium

- ▶ PL 90 suggests that premiums may reflect an “average population” in the market
- ▶ “Average Population” Undefined
- ▶ Our Approach:
  - Combined Claims experience of Maine IND and SG Markets
  - Adjustments for Trend and Administrative Costs
  - Adjustments for the Reinsurance Program Benefits
  - \$225 PMPM (July 2012 through December 2013)

We have assumed the premium charge is the same for each ceded member. However, should the program consider the benefits that the ceded member purchased?

# Program Costs

- ▶ Size of reinsurance pool
  - Assumed that insurers will cede 8% to 12% of their members
  - Estimate 4,000 to 6,000 members in the pool
- ▶ Success rate of insurer in predicting high costs
  - Assumes only health statements are allowed in identifying high risk individuals
  - Success rate will vary by insurer and be contingent upon effectiveness of health statement
  - Estimated the success rate is 20% to 40%
- ▶ Sensitivity Tested

# Program Costs

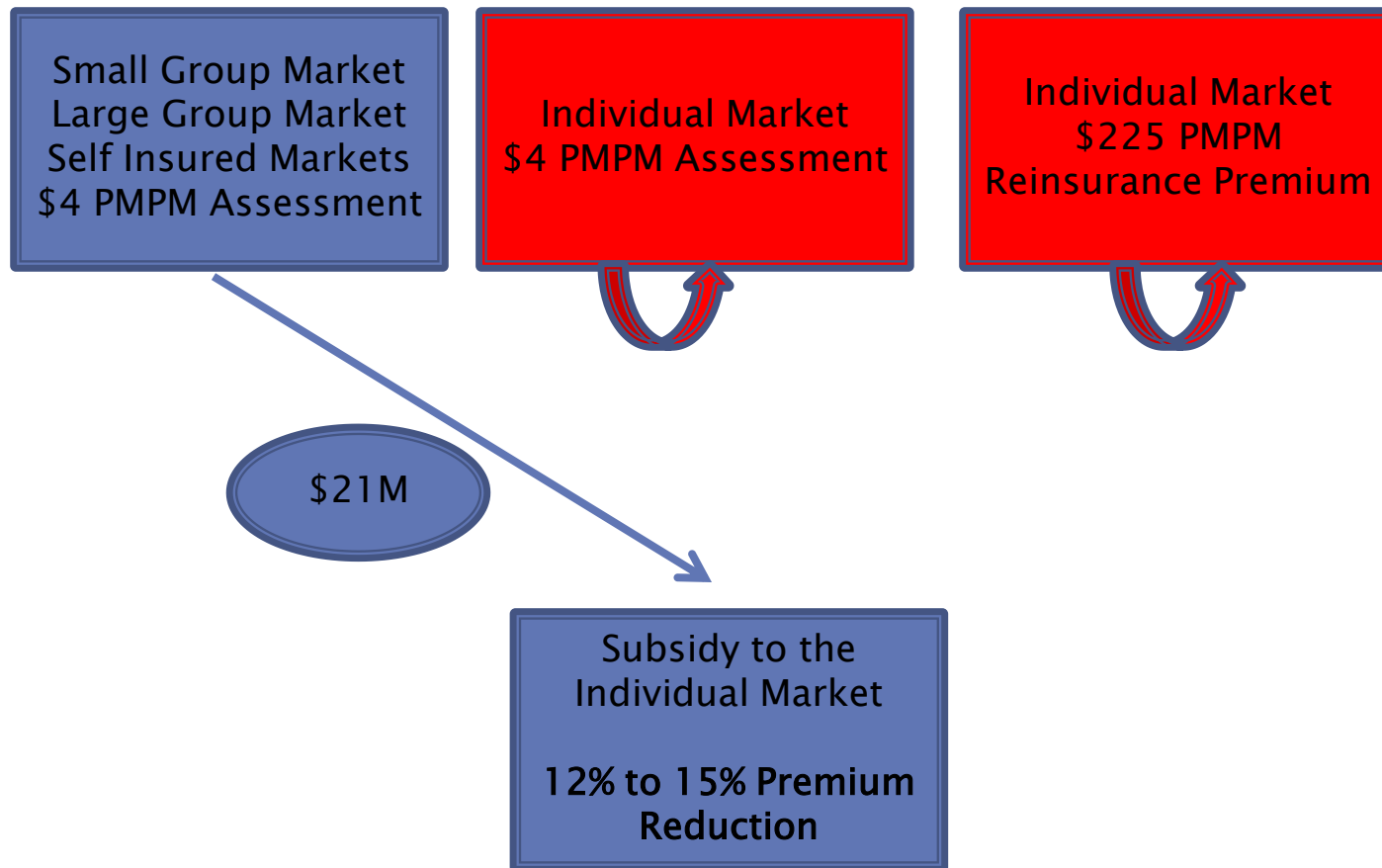
- ▶ Results: \$22M to \$65M annual costs
- ▶ Midpoint: \$41M

Reinsurance Costs and Funding	\$ Million
Reinsurance Claims Cost	\$ 41
- Carrier Premium	\$ 13
Subtotal	\$ 27
- \$4 PMPM Assessment	\$ 22
Total	\$ 5

- ▶ One possible scenario: \$5M shortfall, which could be addressed using the Optional Assessment

# Premium Impact to Individual Market

## Reinsurance Program Funding



# Retrospective Reinsurance Program – Overview

- ▶ Claims automatically reinsured for any member that reaches the reinsurance threshold
- ▶ No insurer risk
- ▶ Program costs more certain
- ▶ No administration of health statement
- ▶ Federal reinsurance program suggests a retrospective program

# Retrospective Reinsurance Program – PL90 Design

- ▶ Modeled retrospective program under the PL90 design:
- ▶ 90% of annual paid claims between \$7,500 and \$32,500 and 100% of claims above \$32,500
- ▶ Funding requirement of \$91 M
- ▶ PL90 plan design is unrealistic under a retrospective program
  - Program is too generous



# Retrospective Reinsurance Program – Design Options

Claims in Excess of	Claims Less Than	Percent Reinsured	Reinsurance Program Dollars Required (\$ Million)	Estimated Premium Reduction	Assessment as a PMPM Charge	Assessment as a % of Premium
\$5,000	\$75,000	90%	\$ 71	46%	\$13	4%
\$5,000	\$50,000	80%	\$ 54	35%	\$10	3%
\$25,000	\$100,000	90%	\$ 36	24%	\$7	2%
\$5,000	\$50,000	50%	\$ 34	22%	\$6	2%
\$50,000	\$5,000,000	50%	\$ 19	12%	\$3	1%

Individual Market: Possible retrospective reinsurance program designs

# Individual Market Rating Rule Changes

INDIVIDUAL MARKET	Current	Open Block			Closed Block		
Rating Factor	Up to July 2012	July 2012 to Dec 2013	Jan 2014 to Dec 2014	Jan 2015 to Dec 2015	July 2012 to Dec 2012	Jan 2013 to Dec 2013	Jan 2014 to Dec 2014
Age	1.5 to 1 band	3 to 1	4 to 1*	5 to 1*	2 to 1	2.5 to 1	3 to 1
Geography	1.5 to 1 band	1.5 to 1	1.5 to 1	1.5 to 1	1.5 to 1	1.5 to 1	1.5 to 1
Smoking Surcharge	Yes, no limit	1.5 to 1	1.5 to 1	1.5 to 1	1.5 to 1	1.5 to 1	1.5 to 1
Age and Area within one band	Yes	No	No	No	No	No	No

\* To the Extent Permitted by the Federal ACA

- ▶ Due to different rating bands Open vs. Closed block, Individual Market may transform into two rating pools temporarily
- ▶ Premiums in the Closed block for the older demographic may be more attractive than premiums in the Open block
- ▶ Insurers will have to anticipate this “pool” change when setting premiums for each block

# Individual Market Rating Rule Changes

- ▶ Analysis separated into three phases:
  - Premium changes in the first year of PL90
    - Expansion of the age rating bands
    - Geography surcharge up to 50%
    - Separation of rating pools, Open vs. Closed
    - Impact of Individual Market Reinsurance Program
  - Analysis of Possible New Entrants
  - Premium Disruptions upon renewal in 2013 and when ACA takes effect

# Individual Market Rating Rule Changes

## ► Assumptions

- Insurers will maintain two rating pools
- July 1, 2012 insurers will expand the age band to 3-to-1 on the Open block and 2-to-1 on the Closed block
- Insurers will use the same geographic adjustments as they use in Small Group Market
- Insurers will reduce their existing rates 10% for the Open block and increase their rates 5% for the Closed block due to expected differences in morbidity
- Individuals will move to the Open block if they experience premium savings greater than 5%
- The new Individual Market reinsurance program will impact the Open and Closed blocks uniformly

# Individual Market Premium Change due to PL90: Year 1

Open Block Premium		
Change	Distribution	Premium Change*
Less than -20%	24%	-38%
-10% to -20%	8%	-17%
0% to -10%	3%	-4%
0% to 10%	2%	5%
10% to 20%	1%	14%
Greater than 20%	0%	23%
Total	37%	

Closed Block Premium		
Change	Distribution	Premium Change*
Less than -20%	5%	-25%
-10% to -20%	28%	-15%
0% to -10%	14%	-6%
0% to 10%	7%	3%
10% to 20%	8%	14%
Greater than 20%	1%	22%
Total	63%	

- ▶ Results show that approximately 40% of the market will be in the Open block
- ▶ Premium change includes a 14.5% premium reduction due to the reinsurance program
- ▶ Approximately 18% of market may experience increases
  - Individuals are older or live in more costly areas

\*Premium change compared to what the premium would have been in the absence of PL90 and does not include medical trend

# Individual Market New Entrants

- ▶ Assumed Elasticity of Demand of  $-0.5$ 
  - For every 10% decrease in price, the number of individuals purchasing insurance would increase by 5%
  - Estimated 2,200 to 3,600 new Individual Market Members
- ▶ Modeling results show that new entrants are younger
- ▶ Estimated that new entrants may reduce overall premiums by ~3 to 5%

# Premium Disruptions

- ▶ Potential Premium volatility in Individual Market
- ▶ Two separate pools, Open vs. Closed blocks
- ▶ Closed block will be older and potentially higher morbidity
  - Premiums may increase upon renewal
- ▶ In CY 2014, pools will be recombined causing premium volatility

# Premium Disruptions Individual Market

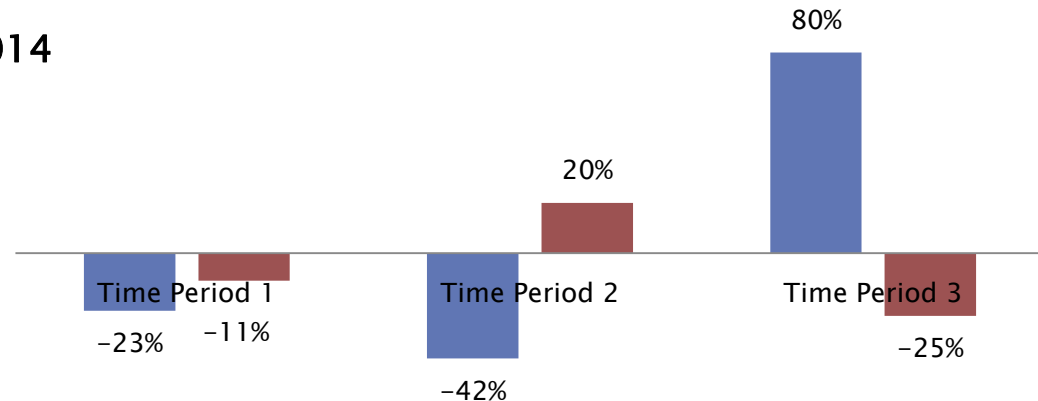
## Time Period Premium Change Possible Scenario

Time Period 1: July 2012 to June 2013

Time Period 2: July 2013 to Dec 2013

Time Period 3: Jan 2014 to Dec 2014

■ Open Block ■ Closed Block





# Small Group Market Rating Rule Changes

Maine Small Group Rating Rules				
	Up to Oct 2011 (Current State)	Oct 2011 - Dec 2012 (PL90_1)	Jan 2013 - Dec 2013 (PL90_2)	Jan 2014 and beyond (ACA_1)
Age	1.5 to 1 band	2 to 1 band on group	2.5 to 1 band on group	3 to 1 band on group
Geography	1.5 to 1 band	1.5 to 1 band	1.5 to 1 band	1.5 to 1 band
SIC	1.5 to 1 band	Allowed	Allowed	Not allowed
Group Size	Allowed	Allowed	Allowed	Not allowed
Age, Geography, SIC in one band?	Yes	No	No	No

- ▶ PL90 allows for carriers to establish an Open block and a Closed block
- ▶ No apparent advantage to doing this
- ▶ Have assumed all carriers will maintain one Open block

# Small Group PL90 Premium Change

Distribution of Expected Year to Year Premium Changes*						
	Oct 2011 - Dec 2012 (PL90_1)			Jan 2013 - Dec 2013 (PL90_2)		
	% Members	% Groups	Average % Change compared to Prior Time Period	% Members	% Groups	Average % Change compared to Prior Time Period
Less than -10%	8.6%	13.4%	-16.6%	1.1%	2.5%	-18.7%
-10% to -5%	5.8%	5.7%	-7.5%	0.7%	1.2%	-7.1%
-4.9% to 0%	69.6%	54.7%	-0.8%	91.8%	78.8%	-0.5%
0.1% to 5%	5.4%	9.8%	2.3%	1.5%	2.1%	2.3%
5.1% to 10%	3.6%	5.2%	7.5%	4.5%	14.8%	6.5%
Greater than 10%	7.0%	11.2%	20.3%	0.5%	0.7%	32.8%

\*Premium Change compared to what the premium would have been in the absence of PL90, and does not include medical trend

- ▶ Majority of members will experience little premium change
- ▶ Nine percent will experience premium decreases greater than 10%
  - Groups with lower average ages and/or located in lower costing regions
- ▶ Seven percent will experience premium increases greater than 10%
  - Groups with higher average ages and/or located in higher costing regions
- ▶ Very little premium change in CY 2013

# Small Group Market Micro-Groups

- ▶ Micro-groups defined as those Small Groups with 5 or fewer Subscribers
- ▶ The impact to micro-groups is more variable than the larger small groups
  - A greater proportion of micro-groups receiving greater decreases
  - A greater proportion of micro-groups receiving greater increases
- ▶ Two strategies to reduce premiums in the micro-group market

# Micro-Group Market: Strategy 1

## Reinsurance Program

- ▶ A Prospective Reinsurance Program (PL90 design)
  - Estimated program cost ~\$23 Million
  - Estimated subsidy ~\$12 Million
- ▶ A Retrospective Program can be designed to achieve whatever funding level or premium reduction goal is desired
  - PL90 design ~\$57M program costs (or subsidy)
- ▶ However, Micro-group market is part of the Small Group rating pool
  - This subsidy will be spread across the entire Small Group Market, not just the micro-groups
  - Unclear how insurers would be required to reduce rates for the micro-groups segment only

# Micro-Group Market: Strategy 2

## Elimination of Group Size Adjustment

- ▶ Eliminating Group Size Adjustment in 2013 would decrease micro-group premiums 10%, and increase premiums on the larger groups

	Average Premium Change from Group Size Factor Elimination		
	% Members	% Groups	Elimination of Group Size Change Only
less than 6	30.5%	68.5%	-10.3%
6 to 9	15.8%	12.3%	2.1%
10 to 25	32.2%	13.7%	5.9%
25 to 50	<u>21.5%</u>	<u>5.5%</u>	<u>6.8%</u>
Total	100.0%	100.0%	0.0%

- ▶ One way to offset the premium increases on large groups is through a reinsurance program
- ▶ In CY2014, Group Size Adjustment will not be allowed due to the ACA

# Affordable Care Act (ACA) Study

# ACA Highlights

- ▶ Individual Mandate: Everyone must have a minimum level of health insurance coverage
- ▶ Essential Benefit coverage: Bulletin just released in Mid December
  - Regulations suggest that States may have the flexibility to define a benchmark in the short term using various methods outlined
  - Minimum Actuarial Value (AV) 0.60

Actuarial Value in the simplest terms represents the portion of health benefits paid for by the insurer. A 0.60 AV means 60% of health benefits are paid for by the insurer, and 40% is paid for by the member, mostly in the form of member cost sharing.

# ACA Highlights

- ▶ Individual Mandate Financial Penalty
  - Greater of a flat dollar amount or a percentage of income
    - \$95 in 2014; \$325 in 2015 and \$695 in 2016, per individual
    - 1% in 2014; 2% in 2015; 2.5% in 2016 – percent of household taxable income
    - Penalty capped at the national average for Bronze coverage



# ACA Highlights

- Premium Tax Subsidies - anyone that earns below 400% FPL will receive some subsidy to pay for health insurance for a 0.70 AV product

"In the case of household income (expressed as a percent of poverty line) within the following income tier:	The initial premium percentage is—	The final premium percentage is—
Up to 133%	2.0%	2.0%
133% up to 150%	3.0%	4.0%
150% up to 200%	4.0%	6.3%
200% up to 250%	6.3%	8.05%
250% up to 300%	8.05%	9.5%
300% up to 400%	9.5%	9.5%

- Cost Sharing Subsidy

Percentage of Poverty line	Actuarial Value of Coverage
133-150%	0.94
150-200%	0.87
200-250%	0.73
250-300%	0.70
300-350%	0.70
350-400%	0.70

# ACA Modeling Approach

- ▶ Two Modeling Exercises:
  - Actuarial – Gorman Actuarial
    - Health Insurance Premium Changes
    - Product Changes
  - Economic – Dr. Jonathon Gruber
    - Population migrations across insured populations
    - Uninsured become insured
- ▶ Modeling Approach
  - Gather insurance data from the insurers
  - Actuarial modeling to understand premium changes
  - Premium changes provided to Dr. Gruber to model behavior changes using microsimulation model
  - Dr. Gruber provided results back to Gorman Actuarial to model resulting premium changes

# Membership Estimates

	2010 Baseline Coverage
<b>Employer Sponsored Insurance (ESI)</b>	<b>574,000</b>
<b>Small Firm ESI (1-50 Employees)</b>	<b>98,000</b>
<b>Large Group ESI</b>	<b>476,000</b>
<b>Individual Market Insurance</b>	<b>32,000</b>
<b>Public Insurance</b>	<b>334,000</b>
<b>Uninsured</b>	<b>106,000</b>
<b>Total</b>	<b>1,046,000</b>

Estimates produced by Dr. Jonathon Gruber

# Membership Estimates CY 2019

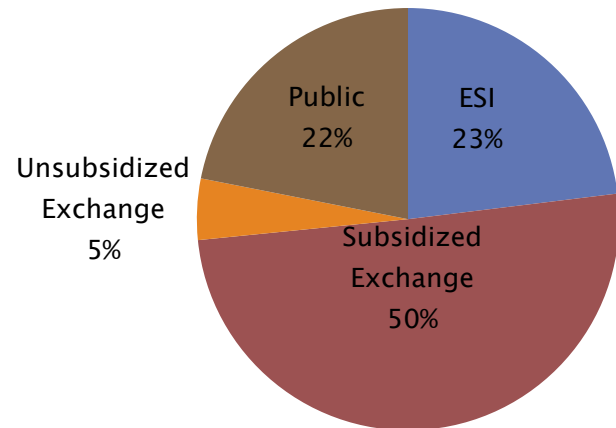
	Status Quo	With ACA	Impact
<b>Employer Sponsored Insurance (ESI)</b>	<b>619,000</b>	<b>607,000</b>	<b>-12,000</b>
<b>Small Firm ESI (1-50 Employees)</b>	<b>110,000</b>	<b>91,000</b>	<b>-19,000</b>
<b>Large Group ESI</b>	<b>509,000</b>	<b>516,000</b>	<b>7,000</b>
<b>Individual Market Insurance</b>	<b>35,000</b>	<b>0</b>	<b>-35,000</b>
<b>Individual Exchange</b>	<b>0</b>	<b>95,000</b>	<b>95,000</b>
<b>Public Insurance</b>	<b>301,000</b>	<b>321,000</b>	<b>20,000</b>
<b>Uninsured</b>	<b>115,000</b>	<b>46,000</b>	<b>-69,000</b>
<b>Total</b>	<b>1,070,000</b>	<b>1,070,000</b>	

- ▶ By 2019, the number of uninsured is projected to decrease by 69,000, or 60%.
- ▶ 95K expected to enroll in the Individual Market
- ▶ Slight deterioration in Small Group Market

Estimates produced by Dr. Jonathon Gruber

# Coverage Sources of Previously Uninsured

Figure 1: Coverage Sources of the Previously Uninsured:  
2019

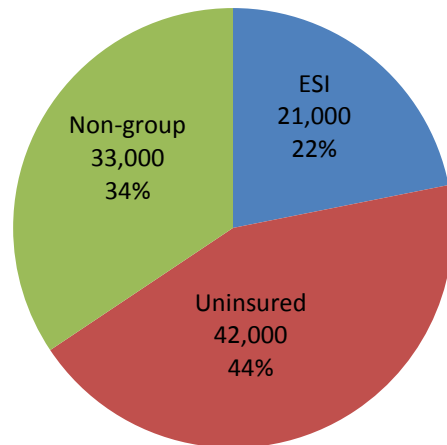


- ▶ 23% will obtain insurance through ESI
- ▶ 50% will receive subsidized insurance through the Exchange

Estimates produced by Dr. Jonathon Gruber

# Coverage Sources of Exchange Population

Figure 5: Status Quo Coverage Sources of the Exchange Population:  
2019



## ▶ New Individual Market

- 44% were previously uninsured
- 22% were previously ESI

Estimates produced by Dr. Jonathon Gruber

# Individual Market Premium Changes

- ▶ Before Federal Premium Tax Subsidies
  - Overall premium rate change for the Individual Market ~+38%
    - Essential Benefit Requirement (Min AV of 0.60) accounts for 33%
    - Individuals will be required to purchase more comprehensive plan designs
    - Some individuals will also be eligible for cost sharing subsidies

# Current ME Individual Market Benefits

Single Policy Deductible Range	Member Distribution
< \$500	2.1%
\$500 - \$1,000	12.0%
\$1,125 - \$2,500	8.2%
\$2,600 - \$4,000	8.6%
\$5,000	34.4%
\$7,500	6.8%
\$10,000	12.9%
\$15,000	15.1%
<b>Total</b>	<b>100%</b>

Based on 2009 data

Actuarial Value Range ( Prior to HCR)	Member Distribution	Average AV	Average In-Network Single Deductible
Less than 0.55	79%	0.37	\$7,719
BRONZE (0.55 TO 0.65)	4%	0.63	\$2,346
SILVER ( 0.66 TO 0.75)	6%	0.69	\$1,685
GOLD ( 0.76 TO 0.85)	11%	0.80	\$556
PLATINUM (greater than 0.85)	1%	0.93	\$215
<b>Total</b>	<b>100%</b>	<b>0.45</b>	<b>\$6,326</b>

- ▶ 69% of the market currently enrolled in a \$5,000 deductible or greater
- ▶ Estimated Actuarial Value for the Market at 0.45



# Individual Market Premium Changes

- ▶ After Federal Premium Tax Subsidies
  - Approximately 40% of the Market will experience premium decreases
    - Average decrease is ~70%
  - Approximately 60% of the Market will experience premium increases
    - Average Increase ~ 37%
- ▶ After Federal Cost Sharing Subsidies
  - 54% of the Market will be eligible for cost sharing subsidies
  - The Individual Market's overall benefits will increase by more than 50%
  - Average AV will increase from 0.45 to at least an average AV of 0.68

# Small Group Market Premium Changes

- ▶ CY 2014: Elimination of Group Size Rating

Average Year to Year Premium Change* by Group Size			
Group Size	% Members	% Groups	Jan 2014 and beyond (ACA)
Less than 6	30.5%	68.5%	-10.1%
6 to 9	15.8%	12.3%	2.0%
10 to 25	32.2%	13.7%	5.6%
25 to 50	<u>21.5%</u>	<u>5.5%</u>	<u>7.3%</u>
Total	100.0%	100.0%	0.0%

- ▶ Smallest groups will experience a premium decrease

\*Premium changes shown are only due to the ACA and do not reflect the impact of medical trend

# Small Group Premium Changes

Distribution of Expected Premium Change* Under ACA Compared to PL90			
Premium Change	% Members	% Groups	Average % Change compared to Prior Time Period
Less than -10%	8.5%	30.0%	-20.3%
-10% to -5%	1.6%	4.8%	-7.2%
-4.9% to 0%	1.1%	3.7%	-1.7%
0.1% to 5%	6.7%	9.9%	3.1%
5.1% to 10%	21.8%	21.6%	7.9%
Greater than 10%	<u>60.4%</u>	<u>30.1%</u>	<u>14.7%</u>
Total	100.0%	100.0%	7.7%

- ▶ Overall premium change ~8%
  - 6 % to 7% due to selection due to net decline in small group market
  - 1% due to essential benefits requirement

\*Premium changes shown are only due to the ACA and do not reflect the impact of medical trend

# Conclusions

## ▶ PL 90

- Majority of small groups will experience relatively small premium changes
- The majority of the Individual Market may experience some premium decrease however there is potential for extreme price volatility over time
- Premium reductions may contribute to limited membership growth in the Individual Market
- Reinsurance program design details not yet defined

## ▶ ACA

- Due to mandate and the subsidies, the uninsured will decrease by 60%
- In the absence of subsidies, premiums in the Individual Market will increase, mostly due to essential benefits requirement
- With subsidies, 40% of the Individual Market will experience decreases, while 60% will experience increases